

Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 IO-13 ISO-00 CIAE-00 DODE-00 PM-05
H-01 INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01
SP-02 SS-15 USIA-06 AID-05 COME-00 EB-08 FRB-03
TRSE-00 XMB-02 OPIC-03 LAB-04 SIL-01 OMB-01
STR-05 CEA-01 CU-04 SSM-03 ACDA-07 /129 W
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FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 9987
INFO AMEMBASSY ABU DHABI
AMCONSUL ALEXANDRIA
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY MOSCOW
AMEMBASSY TEL AVIV
AMEMBASSY TRIPOLI
USMISSION USUN NEW YORK

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E. O. 11652: N/A
TAGS: EGEN, EFIN, PFOR, EG
SUBJ: ECONOMIC CONTENT OF SADAT SPEECH: RECAP AND COMMENT

REF: (A) CAIRO 16184 (NOTAL), (B) CAIRO 15626 (NOTAL),
(C) CAIRO 15270 (NOTAL), (D) CAIRO 15979 (NOTAL)

1. SADAT SPEECH SEPT 28 WAS UNUSUAL, FOR HIM, ATTEMPT TO
ADDRESS ECONOMIC ISSUES AND PROBLEMS VIRTUALLY HEAD-ON. AS
REPORTED REF A, SADAT RAISED NUMEROUS CURRENT ECONOMIC
PROBLEMS AND, IN SOME INSTANCES, SUGGESTED POTENTIAL SOLUTIONS.
VIRTUALLY ALL PRESS COVERAGE SEPT 29 DEVOTED SPACE TO SPEECH,
WHILE FAHMY'S ACTIVITIES IN NEW YORK WERE HANDLED ONLY AS
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2. UNILATERAL MORATORIUM ON SOVIET MILITARY DEBT REPAYMENTS
HEADLINED IN ALL MAJOR DAILIES. SADAT STATED USSR IS PRIME
EXAMPLE OF "WAR TORN COUNTRY WHICH DID NOT REPAY OBLIGATIONS."
EGYPT INTENDS TO FOLLOW THIS PRECEDENT. THUS, ON MILITARY
PORTION OF SOVIET DEBT, GOE WILL SUSPEND PAYMENT FOR 10
YEARS (AS NOTED REF A, PAYMENTS HAVE ALREADY BEEN SUSPENDED

FOR SOME TIME). ON COMMERCIAL DEBT SIDE, SADAT ASKED PM MAMDOUH SALEM WITH NEGOTIATING RESCHEDULING OF COMMERCIAL DEBT IN UPCOMING 1978 PROTOCOL TALKS WITH MOSCOW, IMPLYING CONTINUED COTTON/EMBARGO" OF USSR AND SUSPENSION OF "NORMAL" TRADE RELATIONS UNLESS SOME RESCHEDULING FORMULA DEVISED. HE FURTHER CITED EVIDENCE GOE GOOD FAITH ON TRADE SIDE AS COMMERCIAL OBLIGATIONS ARE UP TO DATE. (REF B REPORTED INFO ON CURRENT USSR-GOE TRADE WHICH INDICATES GOE IN SURPLUS UNDER PRESENT COMMODITY ARRANGEMENT TERMS. GOE ASKED USSR TO RESCHEDULE LAST YEAR WITHOUT SUCCESS. MOREOVER, THREAT OF COTTON EMBARGO IS RELATIVELY WEAK, GIVEN FACT THAT GOE COTTON EXPORTS TO USSR HAVE BEEN VALUED AT HIGHER THAN WORLD MARKET VALUE AND SOVIETS HAVE SHOWN INDICATIONS OF BEING WILLING TO GO ALONG WITH REVISED TRADE ARRANGEMENTS.)

3. SADAT RAISED SUBSIDY ISSUE IN SAME TERMS AS MAMDOUH SALEM HAS BEEN DOING (REF C), ASSERTING GOVERNMENT WILL NO LONGER TOLERATE PROFITEERING AND THAT PEOPLE WILL DECIDE AS TO WHETHER SUBSIDIES WILL BE REMOVED OR NOT. PRICE CONTROLS WILL BE ADMINISTERED BY GOVERNMENT TO BENEFIT APPROPRIATE GROUPS. (GOE ECONOMIC CONTACTS HAVE SOUNDED SAME NOTE REPEATEDLY IN DISCUSSIONS WITH EMBOFFS; I.E., SUBSIDIES ON "LUXURY" ITEMS WILL BE ELIMINATED. SENTIMENT HAS ALSO BEEN EXPRESSED FOR INDEPENDENT PRICE CONTROL AGENCY WHICH WOULD SET PRICES WITHOUT RESPECT TO SPECIAL INTEREST CONCERNS, BUT RATHER IN REALISTIC WORLD MARKET FRAMEWORK AND GIVEN POLITICAL LIMITED OFFICIAL USE

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CONSIDERATIONS OF GOE AS A WHOLE.)

4. PRESIDENT EMPHASIZED IMPERATIVE NEED FOR IMMEDIATE TAX REFORM WHICH WOULD BE ADMINISTERED EQUITABLY AND YIELD HIGHER REVENUES. CALLING TAXES "NATIONAL OBLIGATIONS", HE CHARACTERIZED TAX EVASION AS CRIME AGAINST CITIZENRY AND URGED VOLUNTARY PAYMENT OF TAXES. HE URGED PEOPLES ASSEMBLY TO TAKE ACTION ON MEASURE NOW PENDING (REF C). (SADAT'S URGING MAY POSSIBLY CURTAIL DEBATE IN PEOPLES ASSEMBLY AND LEAD TO DECISION ON PENDING TAX BILL SOONER THAN ANTICIPATED.)

5. IN REVIEWING PRESENT ECONOMIC SITUATION, SADAT HELD OUT HOPE FOR FUTURE. POINTING TO RECENT STUDY COMPLETED BY FORMER FRG FINANCE MINISTER MUELLER, SADAT CITED PROJECTED INCREASES IN REVENUES FROM SUEZ CANAL TOLLS AND PETROLEUM EXPORTS AS FIRST ILLUSTRATION OF LONG-RANGE IMPROVEMENTS IN ECONOMIC OUTLOOK. CONTINUED PURSUIT OF OPEN DOOR POLICY WILL ALSO STRENGTHEN ECONOMIC POSITION. HE TOOK OCCASION TO STRESS THAT IMF STANDBY AGREEMENT WAS NOT IMPOSED ON EGYPT BUT DEVELOPED THROUGH PROCESS OF NEGOTIATION. (MINISTER OF PLANNING ABDEL MEGUID SAID PRIOR TO DEPARTURE FOR U.S. THAT MUELLER REPORT CONTAINED NOTHING NEW AND SADAT WOULD NOT SEE IT; HOWEVER,

ABOVE STATEMENTS MAY INDICATE SADAT IS FAMILIAR WITH AT LEAST SUMMARY OF REPORT AND ALSO MORE CONCERNED WITH FISCAL PLANNING THAN PREVIOUSLY THOUGHT. FACT THAT IMF TEAM DUE IN OCTOBER FOR STANDBY REVIEW ALSO APPARENTLY NOT LOST ON PRESIDENT. REFERENCE TO IMF AGREEMENT COULD BE INTENDED TO SIGNIFY GOE'S WILLINGNESS TO NEGOTIATE, BUT ONLY WITHIN LIMITS OF DOMESTIC POLITICAL REALITY.)

6. SADAT ANNOUNCEMENT OF PROPOSED NEW POLICY TO OFFER 20 FEDDANS TO UNIVERSITY STUDENTS AND GOVERNMENT EMPLOYEES HAS BEEN UNDER DISCUSSION AT LOWER LEVELS FOR SOME TIME. EMBASSY UNDERSTANDS PRESENT SHAPE OF PROPOSAL SUGGESTS AGRICULTURAL STUDENTS SHOULD EACH BE REQUIRED TO DEVELOP 20 ACRES OF RECLAIMED LANDS IN NEW VALLEY OR OTHER AREAS AFTER GRADUATION LIMITED OFFICIAL USE

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AS PART OF EDUCATION PROGRAM. AFTER INITIAL TRIAL PERIOD, STUDENT COULD MAKE ARRANGEMENTS TO PURCHASE LAND THROUGH WORK AND/OR PROFITS. (SCHEME AS ENVISIONED BY SADAT, OR GOE PLANNERS, IS HIGHLY UNLIKELY TO BE IMPLEMENTED. NONETHELESS, IT POINTS UP ADMINISTRATION'S CONCERN WITH FINDING NEW MEANS OF EMPLOYING EVER-BURGEONING LABOR FORCE AND RELOCATING PORTION OF POPULATION.)

7. IN ADDITION TO LAND REFORM, SADAT AGAIN, AFTER SEVERAL MONTHS SILENCE, RAISED ISSUE OF ADMINISTRATIVE REFORM AND URGED PEOPLES ASSEMBLY TO TAKE MEASURES TO ELIMINATE BUREAUCRATIC "RED TAPE". ONCE AGAIN, PM SALEM, WHO HAS BEEN PRINCIPAL ACTIVIST IN THESE AREAS, WAS CHARGED WITH RESPONSIBILITY TO TAKE CONCRETE ACTIONS AND OBTAIN RESULTS.

8. SPEECH COVERED MANY FACETS OF EGYPTIAN DOMESTIC SCENE. HOWEVER, SADAT MADE RARE EFFORT TO GRAPPLE WITH SPECIFICS OF ECONOMIC ISSUES WHICH HAVE OFTEN BEEN LEFT UP TO PM MAMDOUH SALEM AND DEPRIMIN KAISOUNI TO DISCUSS IN RECENT PAST. SADAT CLARIFIED LOWER LEVEL GOE THINKING ON SUBSIDY ISSUE. HE GENERALLY RESTATES WIDELY-HELD GOVERNMENT VIEW THAT MAINTAINING SUBSIDIES ON BASIC COMMODITIES IS CRUCIAL TO REGIME'S STABILITY. (RECENT PRESS SPECULATION ON SUBSIDY ISSUE, CORROBORATED BY SEVERAL GOE ECONOMIC OFFICIALS, INDICATES CLEARLY THAT THIS IS CRITICAL ISSUE IN 1978 BUDGETARY SUBMISSION NOW IN PREPARATION.)

9. COMMENT: AS NOTED REFTEL A, SADAT HAS LOADED ON TO PM SALEM'S BROAD SHOULDERS, IN SPECIFIC TERMS, PERSONAL RESPONSIBILITY FOR LIST OF INTRACTABLE ECONOMIC PROBLEMS. SALEM MUST BE BEGINNING TO WONDER WHETHER HE IS BEING SET UP AS FALL GUY IF SUCCESS IN ECONOMIC FIELD IS NOT FORTHCOMING IN RELATIVELY NEAR FUTURE.
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Message Attributes

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